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**From:** Precursor Group - Scott Cleland  
**To:** Mike Powell  
**Date:** 3/4/03 8:42PM  
**Subject:** FCC Decision Accelerates Dis-investment and Shifts Equipment Demand

Summary: Precursor believes the FCC's Triennial decision strongly cleaves the equipment sector; we advise an underweight of Lucent and Nortel, but an overweight of Corning and Cisco. What matters most right now are the broad directional shifts of this decision, even though the details remain open. The FCC decision unleashes two countervailing forces affecting telecom equipment going forward. The first force is the acceleration of telecom dis-investment through the profit-killing invigoration and extension of UNE-P resale competition. More UNE-P increasingly will pressure equipment spending because capex remains the least painful way to cut costs and protect profits short-term. LU and NT have the largest amount of revenue at risk to further Bell capex cuts. The second force is the new and very heavy regulatory bias favoring fiber/packet technology over copper/circuit technology. GLW and CSCO are the FCC's new "chosen ones." These companies have the least relative revenue at risk and are best positioned from a shift in spending towards fiber/packet technology. The FCC's broadband rules largely adopted Corning's and the High-Tech Coalition's proposals. Corning has so reduced its capacity (-85%) that a shift from copper to fiber for new builds could provide upside opportunity. For example, a 2% shift in the Bells' capex budget to fiber could represent about 15% increase in Corning revenue. (Contrary to conventional wisdom of the FCC decision, deploying fiber-packet to existing copper-circuit plant does not deregulate UNE-P.) Precursor suspects talk of an Alcatel-Lucent merger could revive as the impact of this decision sinks in. To provide some clarity to investors on this split FCC decision, Precursor offers a framework for sorting out the most likely losers and winners (see attached chart). (The full research can be accessed by viewing the attached PDF file.)

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